

Climate Smart Irrigated Agriculture Project - 2021

The audit of financial statements of the Climate Smart Irrigated Agriculture Project for the year ended 31 December 2021 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section III (ii) of the Disbursement and Financial Information Letter and Financing Agreement No 6346-LK dated 11 April 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Agriculture is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are to improve the productivity and climate resilience of small holder agriculture in selected hotspots area. The activities of the Project are implemented under three components namely Agriculture Production & Marketing, Water for Agriculture and Project Management. As per the Loan Agreement, the estimated total cost of the Project was US\$ 140 million equivalent to Rs. 25,200 million and out of that US\$ 125 million equivalent to Rs. 22,500 million was agreed to be financed by International Development Association. The balance amount US\$ 15 million equivalent to Rs 2,700 million is expected to be financed by the Government of Sri Lanka and Beneficiaries. The Project had commenced its activities on 07 May 2019 and scheduled to be completed by 30 June 2024.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Non-compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka - F.R. 103 and F.R. 104	Action had not been taken for the loss of laptop computer valued at Rs. 144,300 as per the F.R	A committee had been appointed by the Deputy Project Director of North Central Province to obtain a report regarding this matter, necessary steps will be taken once the report is obtained.	Action should be taken against responsible parties.
(b)	Public Administration Circular No. 09/2009 and 09/2009 (1) dated 16 April 2009 and 17 June 2009	Finger Print Machine had not been used to record the attendance of the Project Management Unit.	Project Management Unit is in the process of purchasing the finger print machine to record the attendance of the staff.	Finger print machine should be established by the Project Management Unit.
(c)	Section 34 of the Project Appraisal Document	Management Information System (MIS) had not been established as per section of the Project Appraisal Document.	Establishment of the Management Information System is under the Procurement process.	Management Information System should be established without delay.
(d)	Circular No. 01/2019 dated 15 of March 2019 issued by the Department of Management Services	Project Steering Committee (PSC) meeting should be held once in two month. However, only three Project Steering Committees had been held during the year under review.	03 National Project Steering Committee meetings had been held in 2021 even under Covid situation.	Project Steering Committee meeting should be held timely as per instruction given by the Circular.
(e)	Annexure 2, sub section 21 of the Project Appraisal Document (PAD), Management Audit Circular No. 02/2016 dated 10 of June 2016 and Management Audit Circular No. 1/2017 issued by the Department of Management Audit.	The Project had not recruit Internal Auditor for the Project and sufficient Internal Audit had not been carried out for the year under review.	An Internal Auditor had been appointed on month of April 2022 for the Project.	Internal Auditor should be recruited by the project.

3. Physical Performance

3.1 Progress of the Activities of the Project

No	Component	As at 31 December 2021			Response of the Management	Auditor's Recommendation
		Expected performance	Performance achieved	Percentage		
(i)	Yala cultivation programme	3676.8 ha	1194.1 ha	32.47	Agreed. Planned activities of the project got delayed, due to the pandemic and necessary steps had been already taken to expedite the programmes this year.	An action should be taken to accelerate the work.
(ii)	Establishment of a Climate-Smart Agriculture (CSA) (Demonstrations) village in each Agrarian Service Centers	39 villages	15 villages	38.46		
(iii)	Cluster village Development Programme	33 villages	16 village	48.48		
(iv)	Implementation of CSA based Mid-season cultivation programme	1695 ha	721.6 ha	42.57		
(v)	Supply of farm machineries to 47 ASCs	568 units	95 units	16.72		
(vi)	Establishment of producer associations	14 association	5 association	35.71		
(vii)	Organic production program (Liquid-liters)	964,960 liters	24,787 liters	2.56		
(viii)	Demo villages	753 beneficiaries	350 beneficiaries	46.48		

3.2 Delay in Completion of Activities of the Project

Audit Issue

The activities such as Establishment of green park, Capacity building of ASC staff, Wild animal protecting fencing, Building capacities of Farmer Organization, Establishment of Water Management Committee in tanks, Catchment area development, Establishment of Climate-Smart Agriculture farm field school in Thirappane and Anuradhapura, Establishment of the district Producer Federation (PA), Development capacities of leaders in PA and Pes, Train PGs members in adopting value chain practices, Enroll farmer on farm business school approach and training, Conducting training programs and post-

Response of the Management

Agreed.

Auditor's Recommendation

An action should be taken to comply with the Annual Work Plan.

harvest management, value chain and Marketing and providing equipment, Develop a minimum of two marketing linkages in each district had been included in the work plan for the year 2021. However, they had not been launched during the year under review.

3.3 Underutilized Resources

Audit Issue

Out of the total allocation of Rs.3,210 million for the year under review, only Rs.1,389 million had been utilized. When considering the cumulative financial progress of the project until the end of the 2021 from 07 May 2019, is about 20 percent. Accordingly, it should be emphasized that the financial progress of the project was remained at unsatisfactory level, due to the lack of proper project management and it should further emphasized that the successful completion of the project will be a difficult task if proper attention is not paid to the above facts as Sri Lanka is currently facing the economic crisis also.

Response of the Management

The main component of the Project is Tank rehabilitation. It had been planned to survey 961 Tanks and out of that, Surveying and estimation of 735 Tanks had been completed.

Auditor's Recommendation

An action should be taken to utilize the Funds according to the Action Plan.

3.4 Issues Related to Human Resources Management

Audit Issue

Recruitment had not been made yet for the key positions such as Deputy Project Director, Financial Management Specialist, Climate Smart Agriculture Specialist, Water Management and Monitoring Specialist, Hydrologist, Internal Auditor, Engineer and Senior Technical Officers which required for the smooth running of the Project.

Response of the Management

The positions of Financial Management Specialist had been recruited on acting basis with the urgent requirement of Project activities. The need of recruiting Water Management & Monitoring Specialist and Hydrologist are not being arose at the moment and those positions will be recruited when need arises. Arrangements have been made to recruit Internal Auditor, Deputy Project Director & Climate Smart Agriculture Specialist with immediate effect.

Auditor's Recommendation

The essential key positions should be filled without delay by evaluating necessity of the approved carder positions.